GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5533
ANSWERED ON:07.04.2017
Open Market Operations
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Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India (RBI) has purchased Rs. one crore bonds via Open Market Operations (OMOs) since April, 2016;

(b) if so, the details thereof:

(c) whether the RBI has been trying to aid transmission of lower policy rates into lending rates by ensuring there is adequate liquidity in the system; and

(d) if so, the details thereof?

Answer

The Minister of State in the Ministry of Finance

(a) & (b): Reserve Bank of India (RBI) conducted nine open market purchase auctions and injected liquidity to the tune of Rs.1.1 trillion during 2016-17 (April-March). Open Market Operations purchases were made in consonance with the RBI's modified liquidity management framework announced in its First Bi-monthly Monetary Policy Statement for 2016-17 (April 5, 2016). The modified framework entails, inter alia, (i) smooth the supply of durable liquidity over the year using asset purchases and sales (ii) progressively lower the average ex ante liquidity deficit in the system to a position closer to neutrality; with the objective of ensuring adequate availability of durable liquidity in the economy so as to facilitate growth, while ensuring that the monetary policy stance is supported.

(c) & (d): Reserve Bank of India (RBI) has deregulated the interest rates on advances sanctioned by Scheduled Commercial Banks (excluding Regional Rural Banks) and these interest rates are determined by banks with the approval of their respective Board of Directors subject to regulatory guidelines on interest rates, on advances, issued by RBI from time to time. In terms of extant guidelines, which came into effect from April 1, 2016, banks have to compute actual interest rates on advances by adding the components of spread to the Marginal Cost of Fund based Lending Rate (MCLR) which is the internal benchmark for such purpose.

Between April 2016 to March 2017, the Reserve Bank reduced the policy repo rate by 50 bps. In response, the median 1-year MCLR of SCBs declined by 85 bps (Table). The weighted average lending rate (WALR) of banks in respect of fresh rupee loans declined by 68 bps, whereas the WALR on outstanding rupee loans declined by 24 bps over the same period.

Surge in surplus liquidity post-demonetisation period has facilitated faster transmission of monetary policy. Since November 2016, the median 1-year MCLR of banks declined by 85 bps, as compared to only a 15 bps decline in the preceding two quarters.

Table : Lending rates of SCBs

(Per cent)

Quarter Ending	1 Year Median MCLR	WALR (Outstanding Loans)	WALR (Fresh Rupee Loans)
Mar-16	9.45*	11.20	10.47
Jun-16	9.45	11.19	10.43
Sep-16	9.35	11.13	10.35
Dec-16	9.15	11.07	10.12
Mar-17	8.60	10.96$	9.79$
Variation	-0.85	-0.24	-0.68

*: Data pertains to April 5,2016.
$: Data pertains to February, 2017.
Note: WALRs have been computed based on data submitted by banks. As banks often revise their past data, these data are provisional.
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